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Union Budget February 2025

Greetings from Annveshan

The **Union Budget 2025** is a bold step towards growth, stability, and ease of doing business. With a focus on tax relief, investment incentives, and simplified compliance, the government aims to create an environment where businesses can thrive, and individuals can benefit from a more efficient tax system. Key reforms in Income Tax, Corporate Taxation, and GST reflect a strong push towards long-term economic expansion while maintaining fiscal discipline.

For business owners, CFOs, HNIs, and Financial Leaders, this Budget introduces significant opportunities—from higher tax exemptions and extended benefits for start-ups to a more streamlined M&A process and enhanced foreign investment policies. The reduction in compliance complexities, particularly in GST and Direct Taxation, is expected to improve ease of operations and encourage business expansion.

This year's publication also includes a sectoral comparison across the last three Union Budgets, highlighting the evolving policy focus areas. From Infrastructure and Manufacturing Thrust in 2023, to Green Energy and Digital Transformation in 2024, and now a clear emphasis on Tax Rationalization, Foreign Investments, and Ease of Business in 2025, this analysis offers a Holistic view of policy continuity and shifts that matter for decision-makers.

This guide provides a clear, concise breakdown of the Budget's Key Provisions, Sectoral Impacts, and Strategic Implications. Whether you are planning investments, restructuring businesses, or navigating tax changes, this will help you understand and act on the most critical takeaways.

Regards
Team Annveshan
01 February 2025

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Executive Summary

This document offers a detailed overview of the key focus areas in the budget, including direct and corporate taxation, transfer pricing, international tax, charitable trusts, goods and services tax (GST), and other relevant topics. Each section explores the intricacies of tax policies, recent changes, and their potential impacts.

Budget Focus Areas

- The Union Budget 2025-26 focuses on agriculture, infrastructure, MSMEs, and technology, with boosts in farm credit, AI education, healthcare, and startup funding. It supports manufacturing, exports, and urban-rural development through sector incentives and tax reforms. These initiatives drive self-reliance, sustainability, and global competitiveness.

- Furthermore, we've made a comprehensive comparative sector-wise analysis that would help readers identify the shift of focus areas with time.

Personal Taxation and Compliance

- Basic exemption limit and Tax slabs under new tax regime has been proposed **to increase to ₹4,00,000** ensuring total tax on income up to ₹24,00,000 is ₹3 lacs [instead of ₹4.1 lacs]

- The income limit for tax rebate under new tax regime is proposed to increase from ₹7 lacs to ₹12 lacs which provides for a maximum rebate for up to ₹60,000 [as against ₹25,000]

- It is proposed to consider the annual value of up to 2 self-occupied house properties to be considered **NIL**, ***regardless of the reason for non-occupation***

- The time-limit for filing an updated return is proposed to extend from 24 months to 48 months from the end of the relevant assessment year. The additional income tax for returns filed after 24 months will be 60% of the tax and interest, and 70% if filed after 36 months

- It was proposed to introduce compliance for specified entities to report transactions in crypto-assets to the income tax authorities.

- Presumptive taxation was proposed for non-residents providing services or technology to residents engaged in electronics manufacturing facilities at 25% of their turnover

- The deadline for startups to claim exemptions under Section 80IAC has been extended until March 31, 2030, supporting the startup ecosystem.

- Amendments under sections 72A and 72AA are proposed to time-limit for carry-forward of losses in amalgamations to eight years from the year in which the loss was first computed.

- All the chargeable gains from redemption of ULIPs are proposed to be taxed as '**Capital gains'** and taxed at 12.5% under **Section 112A**

- Tax deduction under 80CCD(1B) is proposed to extend for contributions to **NPS Vatsalya Scheme**, up to ₹50,000. This limit is inclusive of contributions for self and minor children

Transfer Pricing

- Proposal for carrying out multi-year ALP determination in case of similar international transactions in lieu of reducing compliance burden.

International Tax

- The Union Budget proposes that non-residents purchasing goods for export will not constitute Significant Economic Presence in India from April 2026.

- Additionally, the tonnage tax benefits will extend to Inland Vessels under the Inland Vessels Act, 2021.

- TCS provisions are rationalized, including exemptions for education loan remittances and an increase in the LRS remittance threshold to ₹10 lakhs.

Charitable Trusts and Institutions

- It is proposed to clarify that with effect from 1st April 2025, *'an incomplete registration application'* for a charitable trust or institution will no longer be considered a "specified violation" leading to registration cancellation

- To ease the compliance burden for charitable trusts, the following amendments are proposed:

    - Registration validity u/s 12AB is proposed to extend to 10 years [from 5 years] if their total income (before exemptions u/s 11 and 12) does not exceed ₹5 crore in the past two years prior to year in which application is made

    - Definition of "substantial contributor" is increased from aggregate amount > ₹50,000 to ₹1 lakh in the previous year or ₹10 lakh in aggregate. Additionally, relatives and interested concerns of such contributors will no longer be considered specified persons.

Goods and services Tax

- The Budget 2025 brings key GST changes affecting businesses. ISDs can now distribute ITC for inter-state supplies under reverse charge, making tax credits more seamless.

- A unique identification marking system has been introduced to track goods and prevent fraud.

- Time of supply rules for vouchers have been removed, as they are now considered neither goods nor services.

- The term "plant or machinery" is now "plant and machinery", clearing up ITC eligibility rules from 2017.

- Businesses must reverse ITC if a supplier issues a credit note, ensuring fair tax adjustments. Auto-generated ITC statements are gone, and new rules clarify when ITC cannot be claimed.

- A 10% pre-deposit is now required for penalty-only appeals, bringing uniformity to the appeal process. New penalties apply for failing to comply with track and trace rules, keeping better control over the supply chain.

- SEZ and FTWZ warehoused goods will not be considered a supply before clearance, simplifying export and domestic trade. Lastly, no GST refunds will be allowed on past transactions now classified as neither goods nor services, preventing revenue leakage.

Foreign Exchange Management Act

- The RBI has made significant amendments to the FEMA Regulations, bringing greater flexibility to businesses and investors. The definition of 'startup' is now aligned with the DPIIT criteria, allowing startups to avail foreign currency benefits.

- Exporters are now permitted to open foreign currency accounts with overseas banks, simplifying the management of export proceeds and remittances.

- Further, fund transfers between repatriable rupee accounts are now allowed, streamlining cross-border transactions for residents and non-residents. Changes to Special Non-Resident Rupee (SNRR) accounts enhance flexibility for non-residents conducting business in India.

- The RBI has also introduced provisions for share swaps and deferred payments in FDI transactions, offering more options for foreign-owned companies. However, companies from land-bordering countries like China and Hong Kong remain restricted from acquiring Indian firms freely.

Others

- The government has raised the FDI limit in the insurance sector from 74% to 100% to encourage investment. The process for mergers and acquisitions will be streamlined, with an expanded scope for fast-tracking. The deadline for startups to claim exemptions under Section 80IAC has been extended until March 31, 2030, supporting the startup ecosystem.

Budget Focus Areas: Engines of Development

01 Agriculture

- Enhanced credit through KCC
- Mission on high yielding seeds
- Cotton productivity mission
- Makhana board in Bihar

02 MSME

- Manufacturing mission
- Credit cards for Micro- Enterprises
- First time Entrepreneurs
- Measures for labour sector

03 Investment

- PM SVANidhi credit cards
- Expansion of Atal tinkering labs
- Urban challenge fund
- Bharatiya bhasha pustak scheme

04 Exports

- Export promotion mission
- National framework for GCC
- BharatTradeNet (BTN)
- Air-cargo warehousing

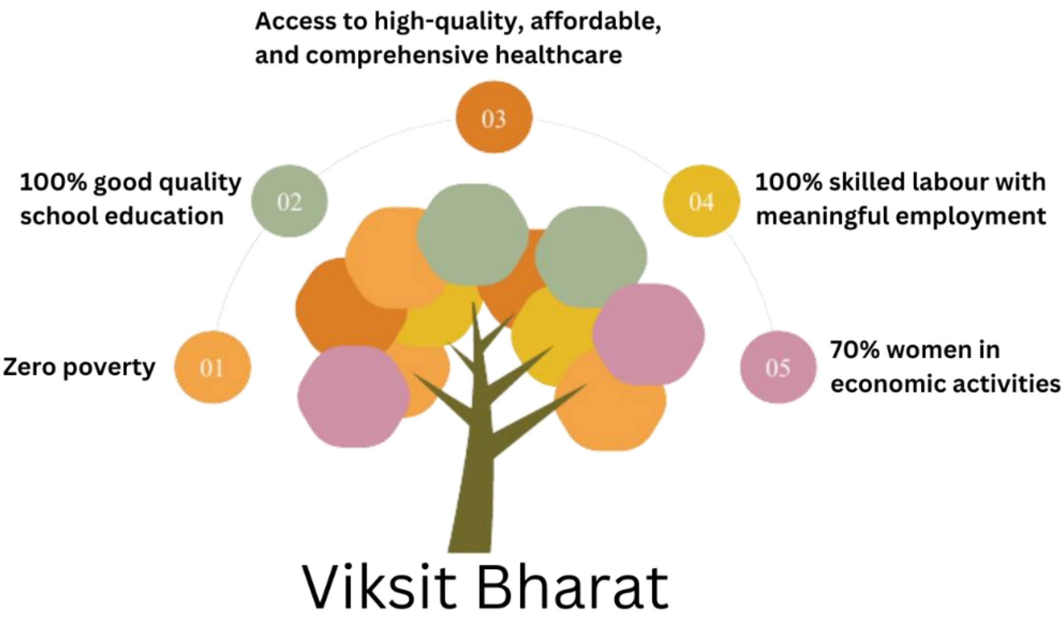
Budget theme

"దేశమంటే మట్టి కాదోయి, దేశమంటే మనుషులోయ్"
-*Telugu poet and playwright Gurajada Apparao*

Translation: "A nation is not just its land; a nation is its people."

This powerful line emphasizes that a country's true strength lies not in its geography but in its people—their progress, well-being, and collective spirit.

In line with above, Viksit Bharat, encompasses:



"ASPIRATION FOR BHARAT" for this Budget

1. Accelerate growth
2. Secure inclusive development
3. Invigorate private sector investments
4. Uplift household sentiments
5. Enhance spending power

Priorities for Viksit Bharat and Sectoral Focus:

1. Agriculture:

- National Mission on High Yielding Seeds- Develop seeds with higher yield, pest resistance, and climate resilience.
- Enhanced Credit through KCC (Kisan Credit Cards)- Increased loans up to ₹5 lakh for 7.7 crore farmers, fishermen, and dairy farmers.
- Prime Minister Dhan-Dhaanya Krishi Yojana - Developing Agri Districts, benefiting 1.7 crore farmers across 100 districts.
- Mission for Cotton Productivity: A 5-year plan to improve cotton farming sustainability and productivity.
- Makhana Board in Bihar: Improve Makhana farming, processing, and marketing through FPOs.
- Urea Plant in Assam: A new plant to increase urea supply with 12.7 lakh metric tons capacity
- Gene Bank for Crops Germplasm: Establish a second gene bank with 10 lakh germplasm lines for food security.
- Fisheries: Sustainable fisheries development with focus on the Andaman & Nicobar and Lakshadweep Islands.
- Aatmanirbharta in Pulses: A 6-year program to improve pulses' climate resilience, productivity, protein content, storage, and pricing.

2. Health:

- Investment in Saksham Anganwadi and Poshan 2.0
- Day Care Cancer Centres in all District Hospitals
- Customs Duty exemption for 36 live saving drugs for cancer and rare diseases.

3. Education:

- IIT Capacity & Fellowships: Increased IIT capacity and 10,000 PM Fellowships for tech research.
- Bhasha Pustak Scheme: Digital books in Indian languages for education.
- Atal Tinkering Labs: 50,000 labs in government schools over 5 years.
- AI in Education: ₹500 crore for AI Centres of Excellence.
- Broadband Connectivity: Connectivity for government schools and health centres in rural areas.

- Medical Education Expansion: Broadening access to medical education.

4. Employment & skilling:

- Establishment of 5 National centres of excellence with global expertise for advanced skilling.
- Welfare of Online Platform Workers: Registration on the e-Shram portal & healthcare under PM Jan Arogya Yojana
- Intensive programs to enhance youth skills specifically for the tourism sector.

5. Infrastructure:

- Support to States for Infrastructure: ₹1.5 lakh crore in interest-free loans for states' capital expenditure with incentives for reforms.
- Public-Private Partnerships: Each ministry will create a 3-year pipeline for PPP projects, with states encouraged to develop similar projects and seek support from the India Infrastructure Project Development Fund (IIPDF).
- Asset Monetization Plan (2025-30): A ₹10 lakh crore plan to monetize assets and reinvest in new infrastructure projects.

6. Manufacturing & Services:

The manufacturing mission aims to enhance business efficiency by improving ease and reducing costs, while fostering a future-ready workforce for emerging job opportunities. It focuses on strengthening the MSME sector, ensuring access to advanced technology, promoting the production of high-quality products, and encouraging clean tech manufacturing for sustainable, climate-friendly development.

- **MSME sector:**
  - Credit Cards for Micro Enterprises: Customized Credit Cards with a ₹ 5 lakh limit for micro enterprises registered on Udyam portal. In the first year, 10 lakh such cards will be issued.
  - Revision in classification criteria for MSMEs:

Rs. in Crores	Investment		Turnover	
	Current	Revised	Current	Revised
Micro Enterprises	1	2.5	5	10
Small Enterprises	10	25	50	100
Medium Enterprises	50	125	250	500

  - Significant enhancement of credit availability with guarantee covers from Rs. 5 Cr to Rs. 10 Cr for MSEs and for term loans up to Rs. 20 Cr for exporters MSMEs.

- Support to MSMEs to tackle non-tariff measures in overseas markets

- **Footwear & leather sector:**
  - Focus Product Scheme is expected to facilitate employment for 22 lakh persons, generate turnover of ₹ 4 lakh crore and exports of over ₹ 1.1 lakh crore.
  - Exemption of custom duty on Wet Blue Leather and Crust Leather.

- **Toy sector:**
  - To focus on development of clusters, skills, and a manufacturing ecosystem that will create high-quality, unique, innovative, and sustainable toys to represent the 'Made in India' brand.

- **Food processing sector:**
  - Establishment of a National Institute of Food Technology in Bihar, enhanced income for the farmers and skilling, entrepreneurship and employment opportunities for the youth.
  - Reduction in Custom Duty for Frozen Fish Paste and Fish Hydrolysate used to manufacture fish and shrimp feeds

7. Start-Up:

- Enhanced Credit Availability: Guarantee cover increased from ₹10 crore to ₹20 crore.
- Fund of Funds for Startups: A new ₹10,000 crore Fund of Funds for startups through AIFs.
- Deep Tech Fund of Funds: A dedicated fund to support next-generation startups in deep tech.
- Startup Incorporation Extension: Eligibility for startup incorporation under section 80IAC extended until 2030.

8. Urban & rural development:

- Rural Prosperity & Resilience Programme: Focused on skilling, technology, and investment to create opportunities in rural areas and reduce migration.
- India Post as a Catalyst for the Rural Economy: Enhancing services like community hubs, credit, insurance, and digital services for rural micro enterprises.
- Urban Challenge Fund: ₹1 lakh crore for urban growth, creative redevelopment, and water & sanitation projects.
- PM SVANidhi Revamp: Enhanced loans, UPI-linked credit cards, and capacity-building support for street vendors.
- UDAN Scheme: Regional connectivity to 120 new destinations, aiming for 4 crore passengers in 10 years.
- Jal Jeevan Mission: Extended to 2028 with enhanced funding for 100% water coverage.

- Power Sector Reforms: Incentives for distribution and transmission reforms with additional state borrowing for meeting targets.
- Support for Bihar: Financial aid for greenfield airports and Western Koshi Canal ERM projects.

9. Tourism:

- Tourist Destination Development: Collaborating with states to develop 50 top tourist sites.
- E-Visa & Waivers: Streamlined e-visa and visa-fee waivers for specific tourists.
- MUDRA Loans: Supporting homestays.
- Tourism Incentives: Performance-linked rewards for states.
- Improved Connectivity: Easier travel to destinations.
- Medical Tourism: Promoting with private sector partnerships. Top 50 tourist destination sites to be developed in partnership with states.

10. Innovation, Technology, Research and Development

- ₹20,000 Crore for R&D: Funding private sector-driven research, development, and innovation initiatives.
- National Geospatial Mission: Developing geospatial infrastructure and data for land records modernization, urban planning, and infrastructure design via PM Gati Shakti.
- PM Research Fellowship: Offering 10,000 fellowships over five years for technological research at IITs and IISc with enhanced financial support.

11. Exports:

- Export Promotion Mission: Sector-specific targets to improve export credit access, cross-border factoring, and MSME support for non-tariff measures in global markets.
- BharatTradeNet: A digital platform for trade documentation and financing solutions, supporting integration with global supply chains.
- National Framework for GCC: Guidance for states to promote Global Capability Centers in tier 2 cities.
- Air Cargo Warehousing Facility: Infrastructure and warehousing upgrades for air cargo, including high-value perishable goods.

12. IT and Electronics Sector:

- Custom Duty Exemptions: capital goods related to EV and lithium-ion batteries, mobile batteries manufacturing, and LCD/LED TV open cells.

- Presumptive Taxation: For non-residents who provide services to a resident company that is establishing or operating an electronics manufacturing facility.

- Duty Changes: Increased on flat panel displays to promote Make in India, reduced on ethernet switches.

13. Others:

- Support for Women, Scheduled Castes, and Scheduled Tribes Entrepreneurs: New scheme to provide loans to 5 Lakhs Entrepreneurs up to Rs. 2 crores, in the next 5 years as part of Startup India.

- Nuclear Energy Mission: Amendments to the Atomic Energy Act and Civil Liability for Nuclear Damage Act to promote private sector partnership. Key initiatives include the introduction of the Grameen Credit Score for rural credit, a Partial Credit Enhancement Facility by NaBFID for infrastructure bonds, a revamped Central KYC Registry launching in 2025, faster approval processes for company mergers, and an increase in FDI limit in insurance from 74% to 100%.

- Maritime Development Fund with a corpus of ₹25,000 crore for long-term financing with up to 49 % contribution by the government.

- Housing: SWAMIH Fund-2 ₹ 15,000 crore for expeditious completion of one lakh dwelling units through blended finance.

- Gyan Bharatam Mission: Documenting 1 crore manuscripts and creating a National Digital Repository.

- Shipping: The shipbuilding policy will address cost challenges with Credit Notes for shipbreaking, include large ships in the infrastructure master list, and develop shipbuilding clusters with better infrastructure and technology.

- Mining: Mining sector reforms include encouraging best practices with a State Mining Index, a policy for recovering minerals from tailings, and full customs duty exemptions on critical minerals like cobalt powder, lithium-ion battery scrap, lead, and zinc.

Last 3 Union budget sectoral analysis

Union Budget 2023-24	Union Budget 2024-25	Union Budget 2025-26
Focus Areas		
• Inclusive development • Financial sector reforms (MSME & Gift IFSC) • Youth Power • Green growth • Infrastructure investment	• Agriculture • MSME support • Employment generation • Industrial & urban development-	• Agriculture • MSME • Investment in people, economy and innovation • Exports
Agriculture		
• Agri-Tech Development • Support for Agri-Startups	• Agricultural Innovation & Sustainability. • Cooperative Development & Self-reliance	• Emphasis on sustainable agriculture and climate adaptation.
Employment and Skilling		
Skill Development for the Future and Youth Empowerment through Apprenticeship	Incentives linked to job creation and skill training upgrades.	Skilling through National Centres of Excellence, welfare for online platform workers and tourism sector skill development for youth.
Infrastructure		
Increased investment in transport, logistics, and energy projects	Focus on rural infrastructure, Irrigation, water management and last-mile connectivity.	State infrastructure support, PPP project development, and asset monetization for new projects.
Energy		
• Sustainability & Green Energy Initiatives • Environmental Conservation Programs	• Clean Energy & Nuclear Innovations • Solar Energy Accessibility	• Active Participation with Private sector for nuclear energy. • Duty cuts on critical minerals to boost energy supply chains.

Manufacturing		
• Boost to Large-Scale Electronic Manufacturing through PLI schemes. • Reduced duties on TV panel parts, mobile phone camera lens components, raw materials for the steel sector and seeds for the production of Lab Grown Diamonds (LGDs)	• Expansion of PLI scheme to Drones and Drones Components, Toys and Footwear and leather sectors. • Support for automation and digitization • emphasized FDI, automation, and green manufacturing.	• Expansion of the PLI scheme to emerging sectors like tourism, semiconductors and electric vehicles (EVs). • Focus on advanced manufacturing and automation technologies. • Customs duty exemptions to support advanced sectors such as automation, and electric vehicles (EVs).
MSMEs & Business Support		
Credit support and simplified compliance measures.	• Credit support schemes for MSMEs. • Focused on promoting cluster development for micro and small enterprises.	• Financial inclusion programs and global competitiveness support. • Targeted the toy sector, using clusters to establish India as a global manufacturing hub.
Education		
Digital learning platforms and NEP implementation.	Focus on improving foundational literacy and skill-based education.	Use of AI tools to enhance classroom learning outcomes.
Technology, Research & Innovation		
Digital Transformation for Businesses and Innovation & Employment in Tech	Incentives for tech start-ups and innovation hubs.	Greater funding for AI, space tech, and biotech research.
Defence & Security		
Push for indigenous defence manufacturing and border infrastructure.	Enhancing defence manufacturing, promoting private sector participation.	Integration of digital technologies and AI in defence and expansion of defence R&D.
Tourism		
Tourism Enhancement Local Skill & Product Promotion	Religious and Heritage Development Tourism Growth in Odisha	Emphasis on developing top tourist destinations, enhancing visa facilities, supporting homestays and promoting medical tourism with private sector collaboration.
Startup		
• Support for Start-ups • Expansion of Angel Tax Provisions	• Continued support with no major new initiatives or tax exemptions • Angel Tax abolishment	• Extension of Startup Incorporation Period • Expansion of incorporation period for eligible start up.

Personal Taxation and Compliances

1. Change in tax slabs for Individuals / HUFs [Effective from AY 2026-27]

- It has been proposed to increase the Basic exemption limit from ₹ 3,00,000 to ₹ 4,00,000. Revised tax slabs are outlined below:

Proposed tax slabs for FY 2024-25 [AY 2025-26]		Proposed tax slabs for FY 2025-26 [AY 2026-27]	
Tax slabs	**Rate**	**Tax Slabs**	**Rate**
Up to ₹ 3,00,000	Nil	Up to ₹ 4,00,000	Nil
₹3,00,001 – ₹ 7,00,000	5%	₹4,00,001 – ₹ 8,00,000	5%
₹7,00,001 – ₹ 10,00,000	10%	₹8,00,001 – ₹ 12,00,000	10%
₹10,00,001 – ₹ 12,00,000	15%	₹12,00,001 – ₹ 16,00,000	15%
₹12,00,001 – ₹ 15,00,000	20%	₹16,00,001 – ₹ 20,00,000	20%
Above ₹ 15,00,000	30%	₹20,00,001 – ₹ 24,00,000	25%
		Above ₹ 24,00,000	30%

We have illustrated below the total tax payable and tax savings in case of an individual earning a total income of ₹ 24 Lacs

Tax Slab	Tax Rate	Tax Payable	Tax Slab	Tax Rate	Tax Payable
0 - 3 lacs	Nil	0	0 - 4 lacs	Nil	0
3 - 7 lacs	5%	20,000	4 - 8 lacs	5%	20,000
7 - 10 lacs	10%	30,000	8 - 12 lacs	10%	40,000
10 - 12 lacs	15%	30,000	12 - 16 lacs	15%	60,000
12 - 15 lacs	20%	60,000	16 - 20 lacs	20%	80,000
Above 15 lacs	30%	270,000	20 - 24 lacs	25%	1,00,000
Total Tax		**4,10,000**			**3,00,000**
Tax Savings due to change in tax slabs					**1,10,000**

- The above revised tax slabs are applicable only under new tax regime, which is currently the default tax regime

- Further, the assessee still has an option to choose the Old Tax Regime if it is beneficial. However, there are no changes proposed in tax slabs or basic exemption limit under the Old Tax Regime.

- The threshold limit for rebate u/s 87A has been increased from 7 lacs to 12 lacs and resultantly the tax rebate will be 100% of tax payable or ₹60,000, whichever is less, under new tax regime.

- Further, marginal relief is available in case of tax payers if their total income marginally exceeds ₹ 12 Lacs. The same is illustrated in the example below:

Illustration: Mr. A earns a total income of 13 Lacs. Below will be the Tax Outflow under:

Particulars	Reference	Amount
Total Income		13,00,000
Less: Standard Deduction		75,000
Taxable Income		12,25,000
Tax payable without marginal relief	(A)	63,750
Additional income over rebate income limit	(B)	25,000
Final Tax payable	Lower of (A) or (B)	25,000
Tax savings due to Marginal relief		**38,750**

*Note: Assessees can avail marginal relief for the rebate under section 87A, as shown above, until their income reaches ~ **₹ 12,72,000** beyond which the additional tax liability would exceed the excess income over* ₹ 12 Lacs

2. Proposed Amendment in Perquisite – Section 17(2) [Effective from 1st April 2025]

- Currently, all the employees whose salary income is exceeding ₹ 50,000 shall be considered for the purpose of computation of perquisite for any free of cost or concessional amenities and expenditure incurred by employer for foreign travel on the medical treatment of employee or his family member

- It is now proposed to increase the above limit of income for taxability of perquisite which is yet to be notified

3. Clarification on treatment of Self-Occupied Property [Effective from 1st April 2025]

- Currently, any tax payer who owns 2 house properties cannot claim the 2nd house as self-occupied property unless the other property is not occupied for the reason of his employment, business or profession is carried on at any other place

- It is now clarified that upto 2 residential house properties can be claimed as self-occupied ***regardless of the reason for non-occupation***

Illustration: *Mr. A owns two residential properties — one in Mumbai and another in Delhi. Previously, he could claim both as self-occupied as he had been working in Mumbai and work-related reasons for not occupying the Delhi property. Under the new amendment, he can now claim both properties as self-occupied, irrespective of the reason for non-occupation, thereby avoiding notional rent taxation on the second house*

4. Proposed amendment in definition of Capital Asset – Section 2(14) [Effective from AY 2026-27]

- Investment funds, including alternative investment funds (AIFs), often hold a diverse portfolio of securities. There was an ambiguity regarding whether gains from such securities should be classified as capital gains or business income

- It is now proposed to amend that “any security” held by investment funds referred to in Section 115UB shall be treated as ‘capital asset’ whereby all such income earned from transfer of such securities would be taxed as **‘capital gains’**

5. Taxation of Long-term Capital Gains on transfer of certain securities by Non-Residents [Effective from AY 2026-27]

- The Finance (No.2) Act, 2024 increased the tax rate on long-term capital gains for all assessees, including non-residents, from 10% to 12.5%, effective July 23, 2024.

- However, long-term capital gains on certain securities under Section 115AD were still taxed at 10%.

- The proposed amendment ensures uniformity by taxing all such gains at 12.5%

6. Reporting in respect of Crypto transactions [New Section 285BAA] [Effective from AY 2026-27]

- It was proposed to introduce a new reporting requirement for furnishing information on crypto-asset transactions by reporting entity in a prescribed format within a specified period.

- Any change in information furnished can be rectified 30 days until further notice is issued requiring compliance.

- The Central government is yet to frame rules specifying the entities required to register with tax authorities, the type of information to be maintained, and the due diligence measures for identifying crypto-asset use₹

- The above amendment proposed is in line with the declaration undertaken during the **‘G20 Leader’s New Delhi Declaration’**, towards swift implementation of the Crypto Asset Reporting Framework (CARF)[1]

- Further, the definition of Virtual Digital Asset is proposed to include ‘*crypto-assets that rely on cryptographic security and distributed ledger technology’* – to ensure transactions and ownership of these assets are protected from unauthorized access or tampering with a secure network and central control.

[1] *CARF provides for the automatic exchange of tax-relevant information (AEOI) on Crypto-Assets*

7. Rationalisation of ULIP taxation

- Currently, redemption / maturity of ULIP policy is taxed as 'Capital gains' only if the exemption u/s 10(10D) is not applicable where the total premium exceeded ₹2.5 lakhs in a previous year
- However, the same proceeds are taxed as 'Income from other sources' if the non-availability of exemption u/s 10(10D) was due to premium exceeding 10% of the sum assured
- In order to the rationalise the above tax anomaly, it is proposed to clarify that all such proceeds of a ULIP shall be taxed as '**capital gains**' u/s 112A at 12.5% if the same is not eligible for exemption under **Section 10(10D)**
- For other life insurance policies, where exemption u/s 10(10D) is not applicable, the sum received will continue to be taxed under '**income from other sources'**

Illustration:

Sum Assured of ULIP	20,00,000	20,00,000	30,00,000
Premium Amount of ULIP	1,80,000	2,40,000	3,00,000
% of Premium on sum assured	9%	12%	10%
Taxability under current provisions	Not taxable	'Income from other sources	Income from Capital gains
Taxability under proposed provisions	Not taxable	Income from Capital gains	Income from Capital gains

8. Contributions made to NPS Vatsalya

- The NPS Vatsalya Scheme, launched on 18 September 2024, allows parents to open an NPS account for their children. The guardian manages the account until the child turns 18, after which it transfers to the child's name and continues in the NPS-Tier 1 or another scheme.
- It is now proposed to extend the tax deduction benefit under section 80CCD for contributions made to NPS-Vatsalya accounts.
- Parents/guardians can claim a tax deduction of up to ₹50,000 u/s 80CCD(1B) for NPS contributions, including those made for up to two minor children and themselves.
- Partial withdrawals upto 25% of contributions will be exempt u/s 10(12BA), but when the full contribution is withdrawn, the amount previously claimed as deductions shall be taxable

9. Tax Exemption on NSS Withdrawals:

- Section 80CCA now provides tax exemption on withdrawals from the National Savings Scheme (NSS) made on or after August 29, 2024.
- The exemption applies only to NSS deposits made before April 1, 1992, including accrued interest, for which a deduction was previously allowed under Section 80CCA.

10. Rationalisation of withholding thresholds [effective from 1 April 2025]

- Finance Act (2) 2024 introduced in July 2024 had rationalised the TDS rates under various sections to ease the compliance burden. In line with this intent, it is now proposed to increase the threshold limits under various sections which is summarised below:

Section	Description	Current Threshold	Proposed Threshold
193	Interest on securities	a) ₹ 5,000 for Debentures issued by a public company b) Nil for Others	₹10,000
194	Dividend for an individual	₹5,000	₹10,000
194A	Interest other than "Interest on securities"	Senior Citizens | Others	Senior Citizens | Others
	Specified Financial Institutions	₹50,000 | ₹ 40,000	₹1,00,000 | ₹50,000
	Any other case	₹5,000 | ₹5,000	₹10,000 | ₹10,000
194B	Winnings from lottery, crossword puzzle, etc.	exceeding total of ₹ 10,000 during the year	₹ 10,000 in respect of **a single transaction**
194BB	Winnings from horse race	exceeding total of ₹ 10,000 during the year	₹ 10,000 in respect of **a single transaction**
194D	Insurance commission	₹ 15,000	₹ 20,000
194G	Commission, etc. on sale of lottery tickets	₹ 15,000	₹ 20,000
194H	Commission or brokerage	₹ 15,000	₹ 20,000
194-I	Rent	₹ 2,40,000 in a Financial Year	₹ **50,000 per month** or part of a month
194J	Fee for professional or technical services	₹ 30,000	₹ 50,000
194K	Income in respect of units	₹ 5,000	₹ 10,000
194LA	Payment of compensation on acquisition of certain immovable property	₹ 2,50,000	₹ 5,00,000

11. Reduction in TDS rate under section 194LBC [effective from 1 April 2025]

Section	Nature of Payment	Payer	Payee	Rate	
				Current	Proposed
194LBC	Income payable by a securitisation trust	Securitisation Trust	Resident Investor	Individual/HUF: 25% Others: 30%	**10%**
			Non-resident investor	As per rates in force	No change

12. Rationalisation in taxation of Business trusts [Effective from AY 2026-27]

- Currently, all the income of a business trust is taxed at the maximum marginal rate, excluding the income chargeable to tax u/s 111A and 112 which are taxable at special rates

- The same is now proposed to exclude income chargeable under section 112A from being taxed at MMR.

Total Income of Business Trusts	Taxability	
	Current provisions	Proposed provisions
STCG u/s 111A	20%	20%
LTCG u/s 112	12.5%	12.5%
LTCG u/s 112A	MMR	**12.5%**
All other income	MMR	MMR

13. Extension of time-limit for filing Updated tax return - Section 139(8A) - [Effective from 1st April 2025]

- Currently the income tax authorities allow furnishing updated tax return for a period up to 24 months from the end of relevant assessment year with additional tax liability of 25% / 50% depending upon the period of delay

- It is now proposed to extend this time-limit to 48 months from the end of the relevant assessment year with additional tax liabilities ranging from 25% to 70% depending upon the period of delay

Year of filing the updated return	Possibility of filing Updated return		Additional tax liability
	Current provisions	Proposed provisions	
< **12 months** from end of AY	YES	YES	25%
< **24 months** from end of AY	YES	YES	50%
< **36 months** from end of AY	NO	YES	60%
< **48 months** from end of AY	NO	YES	70%

Illustration: Mr. X has not his tax returns for the past 5 years and he now decides to file the respective tax returns on ***15th April 2025***

Year of filing the updated return	*Possibility of filing updated return*		*Additional tax liability*
	Current provisions	*Proposed provisions*	
FY 2019-20	NO	NO	NA
FY 2020-21	NO	YES	70%
FY 2021-22	NO	YES	60%
FY 2022-23	YES	YES	50%
FY 2023-24	YES	YES	25%

- It is further proposed that the above updated return cannot be filed if a show-cause notice under Section 148A has been issued after 36 months from the end of the relevant assessment year.

- However, if an order under Section 148A(3) determines that issuing a notice under Section 148 is not a fit case for issue of notice, the updated return may be filed within 48 months from the end of the relevant assessment year.

Illustration: Mr. A has not filed his tax return for FY 2020-21. Time limit for issuing show cause notice under section 148A is set to expire on 31st March 2025. However, time-limit for filing the updated return is available until 31st March 2026 as per the proposed provisions

Scenario 1: *If the above notice is issued to Mr. A on 15th February 2025, he would not be able to file updated tax return for FY 2020-21 even though the proposed provisions provide for an extended time-limit*

Scenario 2: *If the above notice is issued to Mr. A on 15th April 2025, the subject notice would be invalid and thus Mr. A can file updated tax return for FY 2020-21 by paying an additional tax liability of 70% of tax and interest applicable.*

14. Key Amendments in Block assessment

- Section 158B, which defines "undisclosed income" under Chapter XIV-B, is proposed to be amended to include "virtual digital assets" within its scope.

- Previously, the time limit for completing a block assessment under Chapter XIV-B was 12 months from the end of the month in which the last search or requisition authorization was executed. Under Finance Bill 2025, this has been proposed to be revised to 12 months from the end of the quarter in which the last authorization was executed.

- Income from international or specified domestic transactions for the part period of the previous year in which the last search or requisition is executed is proposed to be excluded from block period income.

Corporate Taxation

1. Presumptive taxation for non-residents helping in setting up electronics manufacturing facilities

- A presumptive taxation regime is proposed for **non-residents** providing services or technology to resident companies establishing or operating electronics manufacturing facilities under a notified government scheme.

- Under this regime, 25% of the aggregate amount of either of the following for providing such services or technology as profits and gains from this business

  - paid or payable to, a non-resident or any other person on his behalf
  - Amount received or deemed to be received by the non-resident or any other person on his behalf

- This would be beneficial for those non-residents as their overall tax liability would be less than 10% of their turnover

> **Illustration:** Assuming a foreign company providing the above specified service in India and having this turnover of ₹ 100 Cr, tax payable would be as follows: -
>
> Gross receipts = ₹ 100 Cr
>
> Presumptive income u/s 44BBD – ₹ 25 Cr
>
> Tax payable = ₹ 25 Cr x 35% x 5% surcharge and 4% cess = ₹ 9.56 Cr
>
> ***This demonstrates that the overall tax liability is < 10% of the Turnover under the presumptive tax scheme***

- It can also be noted that there is no upper limit that is prescribed for these non-residents for availing the above-mentioned presumptive taxation

2. Extension of time limit u/s 80-IAC for startups

- Section 80IAC provides a 100% deduction on profits and gains derived from an '***eligible business'*** by an ***'eligible startup'***

  - for 3 consecutive assessment years within the first 10 years from its incorporation; and

  - if it is incorporated on or after 01 April 2016 but before 01 April 2025.

- It is now proposed to extend the above benefit for another period of 5 years, i.e., for all the eligible start-ups incorporated on or after 1 April 2016 **but before 1 April 2030**.

3. Streamlining Provisions for Carry Forward of Losses in Amalgamation

- Section 72A and 72AA currently provides for carry forward of losses of predecessor and successor entities in case of amalgamation

- In case of an amalgamation, the loss of predecessor entity would be deemed to be as loss incurred by the successor entity in the year in which amalgamation has taken place

- As per section 72A / 72AA, such losses can be carried forward for a period of 8 years from the year of amalgamation for set-off against any future business income [As against 8 years from the original year of incurrence of loss as prescribed under section 72]

- To rationalise the above two provisions, it is now proposed to amend Sections 72A and 72AA to explicitly provide that the accumulated loss of the predecessor entity, can only be carried forward for eight assessment years from the year it was first computed for the original predecessor entity.

Illustration: Company X incurred Business losses of Rs 5 crore in FY 2018-19 (AY 2019-20). The losses can be carried forward for a period of 8 years as per Section 72 i.e., up to AY 2027-28. Company X amalgamates with Company Y in FY 2024-25. Under the current provisions of Section 72A/72AA, Company Y will be able to carry forward the said loss for a fresh period of 8 years i.e., up to AY 2033-34.

As per the proposed provision, Company Y will be able to carry forward the losses only up to AY 2027-28.

- This amendment aims to prevent the evergreening of losses through repeated amalgamations and ensure that no loss is carried forward beyond the prescribed period.

4. Tonnage Taxation

- It is proposed to extend the benefits of the tonnage tax scheme to inland vessels registered under the Inland Vessels Act, 2021.

- To facilitate this inclusion, Section 115VD of the Income Tax Act has been amended to classify inland vessels as qualified ships, making them eligible for the tonnage tax scheme.

- The amendment extends tonnage tax benefits to inland vessels, reducing tax burdens, encouraging investment, and ensuring parity with ocean-going ships.

5. Incentives for entities in International Financial Services Centre (IFSC)

To enhance competitiveness and promote financial services within the International Financial Services Centre (IFSC), several tax concessions and regulatory amendments are proposed:

- The sunset dates for commencing operations in IFSC or relocating funds to IFSC under Section 80LA(2)(d), Sections 10(4D), 10(4F), 10(4H), and Section 47(viiad) will be extended to March 31, 2030.

- Proceeds from life insurance policies received by non-residents issued by IFSC insurance intermediaries will be fully exempt under Section 10(10D), without premium-based restrictions applicable to other policies.

- On the lines of aircraft leasing, tax exemptions will be extended to ship leasing under 10(4H) and 10(34B).

- Loans/advances between group entities in IFSC, where one is a finance company/unit acting as a global/regional treasury centre and the 'parent entity' is listed on stock exchange in a country or territory outside India, will not be treated as deemed dividend under Section 2(22)(e).

- Scope of Section 10(4E) will be expanded to exempt non-resident income from transactions with Foreign Portfolio Investors (FPI) operating in IFSC, subject to prescribed conditions.

- The 5% participation limit for resident investors will be rationalized by providing a four-month compliance window, while the relaxation of conditions for eligible fund managers in IFSC will be extended until March 31, 2030.

- Retail schemes and ETFs under the IFSC Authority Act will be classified as "resultant funds" under Section 47(viiad), ensuring tax-neutral relocation to IFSC, aligning with AIFs.

Transfer Pricing

1. Transfer pricing ALP Block treatment

- Streamlining the process of transfer pricing assessment and to reduce the year-on-year litigation on similar international transactions.

- Post determining the ALP by the TPO, it is proposed that the assessee can exercise the option to continue the ALP for the two subsequent consecutive years provided the international transactions are similar. The term “Similar” could typically include - similar facts, same Associated enterprises, quantum of transactions etc.

- The option is to be exercised in the form and manner within such time period as may be prescribed. Notification awaited.

- A suitable amendment is proposed in section 155. The same is w.e.f April 1st, 2026. There was a mention of expansion of safe harbour in the budget speech. Notification is awaited.

2. Faceless Assessment Transfer pricing

- In this regard, it is proposed to omit the end date being 31.03.2025 prescribed for notifying faceless schemes under sections 92CA. The said proposal is to provide time beyond the cut-off date to Central Government to issue directions if required.

International Tax

1. Non-Resident not to constitute SEP (Sec 9)

- It is proposed that, transactions of non – residents which are confined to purchase of goods in India for the purpose of export shall not constitute Significant Economic Presence in India. This is w.e.f 1 April 2026.

2. Presumptive tax proposed for Non-resident engaged in rendering service or technology to resident electronic manufacturer / facilitator (Sec 44BBD)

- Special scheme of presumptive taxation is proposed to be brought in for non-residents engaged in rendering services or technology to resident electronic manufacturing facility.

- 25% of the sum received/ receivable by such Non-resident on account of such services / technology would be considered to be profits and gains of business and taxed accordingly. This is w.e.f 1 April 2026.

3. Extension of benefits of tonnage tax to Indian Inland Vessels

- With an intention to promote inland water transportation in the country and to attract investments in this sector, it is proposed to extend the benefits of tonnage tax scheme to Inland Vessels registered under Inland Vessels Act, 2021. This is w.e.f 1 April 2026.

4. Rationalization of TCS

- **Remittance of Education Loan**
  It is proposed that TCS would not apply, where the loan taken for education from prescribed institutions is repatriated abroad. This is w.e.f 1 April 2025.

- **Increase in Threshold limit for TCS on LRS remittances**
  It is proposed to increase the threshold limit for applicability of TCS of 20% on LRS to Rs 10 lakhs from the existing Rs 7lakhs with effect from 1 April 2025.

- **TCS on purchase of goods proposed to be removed. (Sec 206C(1H))**
  It is proposed to remove TCS on purchase of goods with effect from 1 April 2025 to reduce the compliance burden. TDS u/s 194Q would continue to apply on such sale.

Charitable Trusts and Institutions

1. Extension of Trust Registration Validity [Effective from 1st April 2025]

- Currently, all the charitable trusts and institutions are granted registration for a period of **5 years** (3 years for provisional registration), post which they need to file for renewal

- To ease the compliance burden for smaller trusts, the above registration validity period is proposed to be extended to **10 years** subject to the following:

  a) Application for registration is made under sub-clause (i) to (v) of Section 12A(1)(ac); and

  b) Their **total income** (before applying Sections 11 and 12) **does not exceed ₹5 crores** in each of the **two previous years** preceding the year in which the application is made

> **Illustration:** *A charitable trust that has applied for registration in FY 2022-23, can get a registration for 10 years if its total income (before applying Sections 11 and 12) does not exceed ₹5 crores in each of both FY 2021-22 and FY 2020-21. They can now go for renewal in FY 2032-33 instead of FY 2026-27.*

2. Relaxation in Trust Registration Rules [Effective from 1st April 2025]

- Under Section 12AB(4), the income tax authorities can cancel the registration granted to Charitable Institutions if any ***"specified violations"*** are found in the registration application.

- Currently, an incomplete application for registration is considered as a *'specified violation',* which could lead to *cancellation of registration and tax liability on accreted income*[2].

- It is now proposed to amend that an incomplete application will no longer be treated as a "specified violation."

3. Relaxation in Rules for Substantial Contributors to Trusts [Effective from 1st April 2025]

- Section 13 provides that any application of income by a Charitable Trust towards direct / indirect benefit of *certain related persons*, shall not be eligible for exemption u/s 11 or 12

- The above category of related persons currently includes all those who contributed an amount > ₹50,000 in aggregate since inception of trust including their relatives / interested concerns.

- It has been difficult for the charitable trusts to keep track of the above list on a year-on-year basis and reporting the same has been a challenging task as part of their annual compliance
- To ease the compliance and reporting burden, it has been proposed to amend the following:

[2] * *Accreted Income = Fair Market Value (FMV) of total assets – Liabilities*

Current provisions	Proposed provisions
Related persons include all those who contributed > ₹50,000 in aggregate since the trust's inception	Substantial contributor now defined as those contributing **> ₹1 lakh in the previous year** or **> ₹10 lakh in aggregate** since inception.
Any **relatives or interested concerns** of above substantial contributors	Any relatives or interested concerns of above substantial contributors **will no longer be considered related persons.**

Goods and Services Tax

1. **Amendment in Definition of Input Service Distributor (ISD) and provision for explicit distribution of ITC:**

- The definition of Input Service Distributor (ISD) has been revised to explicitly allow the distribution of input tax credit (ITC) for inter-state supplies where tax is paid under the reverse charge mechanism. This amendment shall take effect from 1 April 2025.

- Hitherto, the same was not provided for inter-state supplies earlier. Furthermore, explicit distribution of ITC by ISD for inter-state supplies has been provided in the provisions now.

2. **Introduction of Unique Identification Marking:**

- A new definition for unique identification marking has been introduced to implement a track and trace mechanism, ensuring secure, non-removable identification of specified goods for better supply chain monitoring, fraud prevention, and regulatory compliance. The Track and Trace Mechanism is expected to roll out in phases for specific commodities.

3. **New Penalty Provisions and Track & Trace Mechanism:**

- Penalties have been introduced for non-compliance with the track and trace mechanism, and an enabling provision has been added for its implementation in monitoring specified commodities.

4. **Provision relating Time of Supply for Vouchers has been omitted:**

- The time of supply provision for vouchers has been removed, acknowledging that vouchers are neither goods nor services, simplifying tax applicability on such transactions. Thus, the ambiguity revolving around vouchers stands resolved now.

5. **Changes in Input Tax Credit (ITC) Provisions:**

- The term "plant or machinery" is replaced with "plant and machinery", eliminating any ambiguity regarding eligibility for ITC, and this amendment will apply retrospectively from 1 July 2017.

6. **Amendment of Credit Notes and Tax Liability Adjustments:**

- It is proposed to explicitly provide for requirement of reversal of corresponding input tax credit in respect of a credit-note, if availed, by the registered recipient, for the purpose of reduction of tax liability of the supplier in respect of the said credit note.

7. ITC Statement and Compliance Adjustments:

- The concept of auto-generated ITC statements has been removed, allowing for greater flexibility in ITC determination. New enabling provisions will allow the ITC statement to include additional details regarding ineligible ITC. This is made to implement the IMS (Invoice Management System) mechanism.

8. New provision relating pre-deposit of penalty amounts:

- The 10% pre-deposit rule is made applicable to penalty amounts in case of appeals where penalty alone is disputed, before the Appellate Authority or the Appellate Tribunal.

- Hitherto, pre deposit of 10% was mandated on the amount of tax, where tax, interest and penalty were disputed. However, there was no explicit provision for pre-deposit in case of appeals where penalty alone was disputed.

9. Changes in Special Economic Zones (SEZ) and Free Trade Warehousing Zones (FTWZ):

- Where the supply of warehoused goods before export or before clearance to the domestic tariff area (DTA) will no longer be treated as a supply of goods or services. Definitions of SEZ, FTWZ, and DTA have also been incorporated, with these changes taking effect retrospectively from 1 July 2017.

10. GST Refund Clarification:

- No GST refunds will be allowed on transactions that were previously taxed but have now been reclassified as neither supply of goods nor services under Schedule III.

- This primarily affects SEZ and FTWZ warehoused goods, which are now excluded from GST before clearance for export or domestic sale, and voucher transactions, which no longer fall under time of supply provisions.

- The clarification prevents businesses from retrospectively claiming refunds on past tax payments for these now-exempt transactions

Some of the above listed legislative changes have been made in pursuance of 55th GST council meeting. The same have also been comprehensively covered in our previous publication titled – '**Key regulatory updates in 2024**'.

$ Foreign Exchange Management Act

1. RBI Defines 'Startup' for Foreign Currency Accounts under FEMA Regulations:

- This amendment to the 2015 Regulations brings clarity regarding the definition of "startup" for entities availing foreign currency account benefits under the regulations and the Exchange Earner's Foreign Currency (EEFC) Account Scheme.

Key Highlights:

- Definition of 'Startup' - The amendment aligns the definition of a 'startup' with the criteria set by the Department for Promotion of Industry and Internal Trade (DPIIT), as per notification G.S.R. 127(E) dated 19 February 2019, and its subsequent amendments.

- A "startup" is defined as an entity that:

    - **Incorporation:** Is incorporated as a private limited company, partnership firm, or limited liability partnership (LLP).
    - **Age Limit:** Has been in existence for up to 10 years from the date of incorporation / registration
    - **Turnover:** Has an annual turnover not exceeding ₹100 crore for any financial year since incorporation.
    - **Purpose:** Is working toward innovation, development, or improvement of products, processes, or services, or is a scalable business model with high potential for employment generation or wealth creation.
    - **Exclusions:** Entities formed by splitting up or reconstruction of an existing business are not eligible.

2. RBI Notification: Enhanced Flexibility for Exporters in Managing Foreign Currency Accounts (FEMA 10(R)(5)/2025)

- This amendment to the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015 introduces enhanced flexibility for Indian exporters to manage their foreign currency earnings.

Key Highlights:

- **Permission for Foreign Currency Accounts:** Indian exporters can now open and maintain foreign currency accounts with overseas banks.

- **Purpose of Accounts:**
    - To receive the full value of exports and advance remittances for goods or services.
    - To utilize the funds for import payments into India or repatriate them to India within the next calendar month, after accounting for forward commitments.

- **Compliance Requirements:** Exporters must adhere to the realization and repatriation norms specified in Regulation 9 of the Export Regulations, which mandates the timely realization and repatriation of export proceeds within prescribed timelines.

This change aims to facilitate smoother financial operations for exporters and improve India's trade competitiveness.

3. Streamlining Investment and Payment Mechanisms: Key Updates Under FEMA 395(3)/2025

- This amendment to the Foreign Exchange Management (Deposit) Regulations, 2016 introduces significant updates to enhance operational flexibility for deposit accounts and streamline financial transactions for residents and non-residents.

Key Amendments at a Glance

- **Authorised Dealers' Extended Services**: Authorised dealers in India and their branches abroad can now provide services, broadening their operational reach and improving access for account holders.

- **Fund Transfers Between Repatriable Rupee Accounts:** Transfers between repatriable Rupee accounts are now permitted for all legitimate (bona fide) transactions, simplifying cross-border fund management.

- **Changes to Special Non-Resident Rupee (SNRR) Accounts:** Non-residents with business interests in India can now open SNRR accounts with authorised dealers in India or their **branches outside India** for permissible current and capital account transactions.

- Units in International Financial Services Centres (IFSCs) are permitted to open SNRR accounts with authorised dealers **outside IFSCs** for business transactions beyond the IFSC.

- The tenure of SNRR accounts has been aligned with the duration of the underlying contract, operational period, or business of the account holder, providing greater flexibility.

- **Technical Update:** The term "Indian bank" has been replaced with "a bank" in Schedule 4 to include a broader range of banking institutions.

Impact of the Amendments

- **Increased Convenience for Businesses** Allowing authorised dealers and their foreign branches to provide services simplifies processes for businesses operating across borders and ensures seamless operations.

- **Simplified Fund Management:** Permitting fund transfers between repatriable Rupee accounts provides greater ease in managing funds for individuals and businesses engaged in cross-border transactions.

- **Enhanced Flexibility for Non-Residents:** Updates to SNRR accounts provide non-residents with greater flexibility to conduct business in India, ensuring easier access to financial services and better alignment with their operational needs.

- **Boost for IFSC Activities:** The amendments related to IFSC units and SNRR accounts are expected to drive business growth within and outside IFSCs by improving the ease of managing financial transactions.

4. Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) (Third Amendment) Regulations, 2025

- These regulations amend the existing provisions of the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) Regulations, with changes summarized below for Schedules I, II, VI, VII, VIII, and X.

- **Schedule I – Investment by a Person Resident Outside India in Equity Instruments**

- **Mode of Payment:** Consideration must be received as:
  - Inward remittance through banking channels.
  - Repatriable foreign currency or Rupee account under FEMA (Deposit) Regulations, 2016.

- **Modes of consideration include**:
  - Issuance of equity shares against funds payable by the Indian company (e.g., pre-incorporation expenses, technical know-how fees, or royalty).
  - Swap of equity instruments.

- **Remittance of Sale Proceeds**: Sale proceeds (net of taxes) can be:
  - Remitted abroad, or
  - Credited to the investor’s repatriable foreign currency or Rupee account.

- **Schedule II – Investment by Foreign Portfolio Investors (FPIs)**

- **Mode of Payment:** Investment can be made through:
  - Inward remittance.
  - Foreign currency account or Special Non-Resident Rupee (SNRR) account under FEMA (Deposit) Regulations, 2016.

- **Remittance of Sale Proceeds:** Sale proceeds (net of taxes) can be:
  - Remitted abroad, or
  - Credited to the FPI’s foreign currency or SNRR account.

- **Schedule VI – Investment in a Limited Liability Partnership (LLP)**

- **Mode of Payment:** Capital contributions must be made through:
  - Inward remittance, or
  - Repatriable foreign currency or Rupee account.

- **Remittance of Disinvestment Proceeds:** Disinvestment proceeds (net of taxes) can be:
  - Remitted abroad, or
  - Credited to the investor's repatriable foreign currency or Rupee account.

- **Schedule VII – Investment by a Foreign Venture Capital Investor (FVCI)**

- **Mode of Payment:** Investment can be made via:
  - Inward remittance.
  - Foreign currency account or SNRR account under FEMA (Deposit) Regulations, 2016.
- The foreign currency account is restricted for use only in transactions under this schedule.

- **Remittance of Sale/Maturity:** Proceeds from sale or maturity (net of taxes) can be:
  - Remitted abroad, or
  - Credited to the investor's foreign currency or SNRR account.

- **Schedule VIII – Investment by a Person Resident Outside India in an Investment Vehicle**

- **Mode of Payment:** Investment can be made through:
  - Inward remittance.
  - Swap of shares of a Special Purpose Vehicle (SPV).
  - Repatriable foreign currency or Rupee account.

- **Remittance of Sale/Maturity Proceeds: Proceeds from sale or maturity (net of taxes) can be:**
  - Remitted abroad, or
  - Credited to the investor's repatriable foreign currency or Rupee account.

- **Schedule X – Investment in Indian Depository Receipts (IDRs)**

- **Mode of Payment:**
- **Non-Resident Indians (NRIs)/Overseas Citizens of India (OCIs):** Investment can be made through NRE or FCNR(B) accounts.
- **Foreign Portfolio Investors (FPIs):** Investment can be made through foreign currency or SNRR accounts.

- **Remittance of Sale/Maturity Proceeds:** Redemption or conversion of IDRs into underlying equity shares must comply with the FEMA (Overseas Investment) Rules, 2022.

- **Additional Notes:**

- **Repatriation Channels:** All remittance or crediting processes must comply with applicable FEMA regulations, ensuring transparency and adherence to taxation requirements.

- **Cross-Border Swaps:** Any equity instrument swap involving foreign investment must follow prescribed procedures under FEMA regulations.

5. Foreign Exchange Management (Non-debt Instruments) (Fourth Amendment) Rules, 2024

- The following are the recent regulatory changes by the Reserve Bank of India (RBI) that allow foreign-owned or controlled companies (FOCCs) in India to acquire stakes in local firms through share swaps and deferred payment structures:

- **Policy Clarity on FOCC Acquisitions:**
  - Previously, foreign acquisitions of local firms required specific regulatory approvals or were conducted solely through cash transactions (where the FOCC brought in fresh capital from abroad or dipped into retained earnings in India.)
  - The RBI has now provided a clear framework for such transactions.

- **Changes in Foreign Exchange Regulations:**
  - Local companies can now adjust the tenor (duration) of compulsorily convertible debentures and preference shares issued to overseas investors.
  - This allows foreign investors and Indian companies to delay share conversions if the fair value of shares is lower than the conversion price at the end of the originally agreed tenor.
  - While such postponement of tenor is allowed under Companies Act, the RBI directive has endorsed it under the Foreign Exchange Management Act (FEMA).

- **Share Swap & Deferred Payment Now Allowed:**
  - RBI has extended Foreign Direct Investment (FDI) provisions to downstream investments.
  - Share-swap deals and deferred payments (like FDI rules) are now permitted.
  - Previously, 100% payments were required upfront for downstream investments, but now FOCCs can pay 75% upfront and 25% within 18 months.

- **Exclusion of Chinese and Hong Kong Investors:**
  - Companies from land-bordering countries (China, Hong Kong, etc.) cannot freely acquire Indian firms, even using retained earnings from their Indian operations.
  - For instance, Chinese subsidiaries in India cannot use their profits from Indian operations to buy into an Indian company.
  - These reforms aim to enhance foreign investment flexibility, boost cross-border mergers

6. 100% FDI in Insurance

The government has announced the opening of the insurance sector from 74 % to 100% Foreign Direct Investment (FDI), aiming to boost investments and expand the sector's reach.

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Disclaimer

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